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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

**FACING PAGE**

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/11 AND ENDING 12/31/11  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Potomac Investment Company

OFFICIAL USE ONLY

FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

5600 Wisconsin Avenue

(No. and Street)

Chevy Chase, MD 20815

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Carol A. Greenwald

(301) 657-2072

(Area Code-Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

WILLIAM BATDORF & COMPANY, P.C.

(Name- *f individual, state last, first, middle name*)

1750 K STREET, NW, SUITE 375, WASHINGTON, DC 20006

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)2.

Sec. 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

CPA  
3/28

## OATH OR AFFIRMATION

I, Carol A. Greenwald, swear (or affirm) that, to the best of my knowledge and belief that the accompanying financial statements and supporting schedules pertaining to the firm of Potomac Investment Company, as of December 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_  
Signature

President

\_\_\_\_\_  
Title

\_\_\_\_\_  
Notary Public

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Independent auditor's report on internal accounting control.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**POTOMAC INVESTMENT COMPANY**  
**STATEMENT OF FINANCIAL CONDITION**  
**AND INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2011**

**POTOMAC INVESTMENT COMPANY  
STATEMENT OF FINANCIAL CONDITION  
AND INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2011**

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**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1750 K STREET, N.W., SUITE 375  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Potomac Investment Company  
Chevy Chase, MD

We have audited the accompanying statement of financial condition of Potomac Investment Company (the Company) as of December 31, 2011, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Potomac Investment Company at December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

*William Batdorf & Company, P.C.*

Washington, DC  
February 20, 2012

**POTOMAC INVESTMENT COMPANY**  
**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2011**

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**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 1,852
Investment in Securities	85,785
Accounts Receivable – Trade	126
Prepaid Expenses	<u>6,817</u>

Total Current Assets 94,580

**OTHER ASSETS**

Fixed Assets	54,198
Accumulated Depreciation	<u>( 47,305)</u>
Net Property and Equipment	<u>6,893</u>

Total Assets \$ 101,473

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**LIABILITIES**

Accounts Payable	\$ 8,044
Accrued Retirement Contribution	<u>28,500</u>

Total Liabilities 36,544

**STOCKHOLDERS' EQUITY**

Common Stock	6,000
Additional Paid-In Capital	66,210
Retained Earnings	<u>( 7,281)</u>

Total Stockholders' Equity 64,929

Total Liabilities and Stockholders' Equity \$ 101,473

**POTOMAC INVESTMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**NOTE 1 - ORGANIZATION**

Potomac Investment Company (the Company), was incorporated under the laws of the District of Columbia on October 19, 1983 to provide investment services in the Washington metropolitan area. The Company, which is regulated by the Securities and Exchange Commission (SEC) under the Securities and Exchange Act of 1934, is an "introducing" broker-dealer as defined in Rule 15c3-1(a)(2).

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Revenue Recognition** - Securities transactions and related commissions are recorded on a settlement date basis, which management believes is not materially different than trade date.

**Depreciation** - The Company's equipment is depreciated using the straight line method over three to seven years.

**Use of Estimates** - The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

**Income Taxes** - Beginning with the taxable year ending December 31, 1983, the Company's S shareholders elected to be treated as an S Corporation for Federal income tax purposes. Under this election, income, losses and credits are included in the individual tax returns of the shareholder. Therefore, no provision has been made for income taxes in the accompanying financial statements.

**Accounts Receivable** - Accounts receivable are recorded net of allowance for expected losses. The allowances, estimated at zero for 2011, is estimated based on historical performances.

**Cash and Cash Equivalents** - Cash and cash equivalents consisted of cash on deposit with established federally insured financial institutions. For purposes of the statement of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

**Statement of Cash Flows** - For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Investment in Security** - The Company holds 3,500 shares of NASD stock with a cost basis of \$50,141. The fair market value of the security is \$85,785 at December 31, 2011 and has been classified as a current asset.

**POTOMAC INVESTMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Retirement Plan** - The Company maintains a Simplified Employer Plan (SEP) for employees. The Company provides a discretionary contribution to the SEP on an annual basis and the contribution is accrued as a liability in the year to which it applies. For 2011, the Company elected to make a contribution of 28,500.

**NOTE 3 - FAIR VALUE MEASUREMENT**

All of the Company's assets and liabilities which are stated at fair value are valued in accordance with Level 1 criteria, as defined in FASB ASC 820. Level 1 value measurement uses quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.

**NOTE 4 - RELATED PARTY TRANSACTIONS**

The Company leases operating space from the sole shareholder. The monthly payment represents a percentage of space used and is determined on a month to month basis.

**NOTE 5 - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2011, the Company had net capital of \$35,821 which was \$30,821 in excess of its required net capital of \$5,000. The Company's ratio of aggregate indebtedness to net capital was .78 to 1.

**NOTE 6 - OTHER REGULATORY REQUIREMENTS**

The Company is exempt from the provisions of the reserve requirements of the Securities and Exchange Commission under Section (k)(2)(ii) since the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

**NOTE 7 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 20, 2012, the date on which the financial statements were available to be issued. No events have occurred since the balance sheet date that would have material impact on the financial statements.



**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1750 K STREET, N.W., SUITE 375  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

**SUPPLEMENTARY REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**  
**ON INTERNAL ACCOUNTING CONTROL**

Management Committee  
Potomac Investment Company  
Chevy Chase, MD

In planning and performing our audit of the financial statements of Potomac Investment Company (the Company), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with

management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for information and use of the members, management, the SEC, FINRA and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*William Batdorf & Company, P.C.*

Washington, DC  
February 20, 2012

**WILLIAM BATDORF & COMPANY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
1750 K STREET, N.W., SUITE 375  
WASHINGTON, DC 20006  
TELEPHONE: (202) 331-1040

Board of Directors  
Potomac Investment Company  
Chevy Chase, MD

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments [General Assessment Reconciliation (Form SIPC-7)] to the Securities Investor Protection Corporation (SIPC) for the year ended December 31, 2011, which were agreed to by Potomac Investment Company and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC solely to assist you and the other specified parties in evaluating Potomac Investment Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Potomac Investment Company's management is responsible for Potomac Investment Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries including check registers and bank statements noting no differences;
2. Compared the amounts reported on the audited Form X-17A-5 for the year ended December 31, 2011, as applicable, with the amounts reported in Form SIPC-7 for the year ended December 31, 2011, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7 on which it was originally computed noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

\* This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

*William Bartholomew & Company, P.C.*

Washington, DC  
February 20, 2012

**SIPC-7**

(33-REV 7/10)

**SECURITIES INVESTOR PROTECTION CORPORATION**

P.O. Box 92185 Washington, D.C. 20090-2185

202-371-8300

**General Assessment Reconciliation**For the fiscal year ended December 31, 2011

(Read carefully the instructions in your Working Copy before completing this Form)

**SIPC-7**

(33-REV 7/10)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

030830 FINRA DEC  
 POTOMAC INVESTMENT COMPANY 15\*15  
 5800 WISCONSIN AVE APT 108  
 CHEVY CHASE MD 20015-4408

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Carol Greenwood 301.651-2072

2. A. General Assessment (Item 2e from page 2)

\$ 426

B. Less payment made with SIPC-6 filed (exclude interest)

( 211 )7/26/11

Date Paid

C. Less prior overpayment applied

( 33 )

D. Assessment balance due or (overpayment)

182

E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum

F. Total assessment balance and interest due (or overpayment carried forward)

\$ 182

G. PAID WITH THIS FORM:

Check enclosed, payable to SIPC  
 Total (must be same as F above)

\$ 182

H. Overpayment carried forward

\$( \_\_\_\_\_ )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

(Name of Corporation, Partnership or other organization)

(Authorized Signature)

Dated the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

(Title)

This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.

**SIPC REVIEWER**

Dates:

Postmarked \_\_\_\_\_

Received \_\_\_\_\_

Reviewed \_\_\_\_\_

Calculations \_\_\_\_\_

Documentation \_\_\_\_\_

Forward Copy \_\_\_\_\_

Exceptions:

Disposition of exceptions:

# **DETERMINATION OF "SIPC NET OPERATING REVENUES" AND GENERAL ASSESSMENT**

Amounts for the fiscal period  
beginning Jan 1, 2011  
and ending Dec 31, 2011

Eliminate cents

\$ 173162

Item No.

2a. Total revenue (FOCUS Line 12/Part IIA Line 9, Code 4030)

2b. Additions:

- (1) Total revenues from the securities business of subsidiaries (except foreign subsidiaries) and predecessors not included above.
- (2) Net loss from principal transactions in securities in trading accounts.
- (3) Net loss from principal transactions in commodities in trading accounts.
- (4) Interest and dividend expense deducted in determining item 2a.
- (5) Net loss from management of or participation in the underwriting or distribution of securities.
- (6) Expenses other than advertising, printing, registration fees and legal fees deducted in determining net profit from management of or participation in underwriting or distribution of securities.
- (7) Net loss from securities in investment accounts.

Total additions

2c. Deductions:

- (1) Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products.
- (2) Revenues from commodity transactions.
- (3) Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions.
- (4) Reimbursements for postage in connection with proxy solicitation.
- (5) Net gain from securities in investment accounts.
- (6) 100% of commissions and markups earned from transactions in (i) certificates of deposit and (ii) Treasury bills, bankers acceptances or commercial paper that mature nine months or less from issuance date.
- (7) Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act).
- (8) Other revenue not related either directly or indirectly to the securities business.  
(See Instruction C):

(Deductions in excess of \$100,000 require documentation)

- (9) (i) Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above) but not in excess of total interest and dividend income. \$ \_\_\_\_\_

- (ii) 40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960). \$ \_\_\_\_\_

Enter the greater of line (i) or (ii)

Total deductions

2d. SIPC Net Operating Revenues

2e. General Assessment @ .0025

2800  
170362  
426  
(to page 1, line 2.A.)